

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 EUR-12 SP-02 AID-05 EB-08 NSC-05  
TRSE-00 SS-15 STR-04 OMB-01 CEA-01 COME-00 FEAE-00  
CIAE-00 INR-07 NSAE-00 /071 W  
-----071553Z 057171 /53

R 071240Z MAR 77

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 1526

INFO :AMEMBASSY ABU DHABI 673

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMCONSUL DHAHRAN

C O N F I D E N T I A L SECTION 1 OF 2 TEHRAN 2059

CAUTION - THIS CABLE CONTAINS SENSITIVE PROPRIETARY INFORMATION

E.O. 11652: GDS

TAGS: BEXP ENRG IR

SUBJ: OIL BARTER: US FIRM MCA ENGINEERING CORP

SEEKS OIL BARTER FOR CONSTRUCTION WORK IN IRAN

REF: (A) STATE 43873(NOTAL) (B) STATE 44763(NOTAL)

1. EMBOFF ON FEB 28 SPOKE WITH MESSRS EDMUND F HAILE  
(PRES MCA ENGINEERING CORP OF BALTIMORE MD, A SUBSIDIARY OF  
WALTER KIDDE CO), GRADY JORDON (PRES, EASTERN SALES DIVISION  
OF MCA), AND FRED MIRMIRAN (GENERAL MANAGER, MCA IRAN) CONCERNING  
THE FIRM'S DESIRE TO DO CONSTRUCTION WORK IN IRAN ON AN  
OIL BARTER BASIS. THEY HAD BEEN TOLD BY THE MINISTER OF ROADS  
THAT \$1-2 BILLION WORTH OF ROAD CONSTRUCTION WORK COULD BE WON  
BY MCA PROVIDED THE COMPANY AGREED TO BE PAID IN IRANIAN CRUDE.  
MCA'S FEE FOR DESIGN, ENGINEERING, SUPERVISION AND CONSTRUCTION--  
BOTH LOCAL AND EXTERNAL COSTS--WOULD BE COVERED BY THE OIL  
BARTER. A FEASIBILITY STUDY OF THE ISFAHAN/AHWAZ ROAD WAS GIVEN  
TO THE MCA OFFICIALS BY THE MINISTRY FOR STUDY AND RE-  
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ACTION. EMBOFF REVIEWED WITH THE OFFICIALS DETAILS AS  
WE UNDERSTOOD THEM, OF THE UK-GOI BARTER TRANSACTION FOR  
RAPIER MISSILES, THE LIKELY NEGOTIATING STANCE OF NICO  
AND THE PITFALLS INVOLVED IN OIL BARTER DEALS. THE MCA  
OFFICIALS SAID THAT A MEETING HAD BEEN SET UP FOR MARCH  
2 WITH MINISTER OF ECONOMIC AFFAIRS AND FINANCE HUSHANG  
ANSARY, WHEN THEY EXPECTED TO GET FURTHER INFORMATION ON

THE GOI REQUIREMENTS ON OIL BARTER.

2. THE FOLLOWING RESULTS OF THE MARCH 2 MEETING WERE PROVIDED TO THE EMB BY 2 OF THE US PARTICIPANTS IN THE MEETING, ATTENDED BY THE MCA OFFICIALS AND 12 GOI OFFICIALS, INCLUDING MINISTERS ANSARY AND FARAHBAKHSIAN (ROADS AND TRANSPORT). MCA OFFICIALS NOTED THAT THEIR FIRM WOULD BE UNABLE TO PERFORM THE WORK ON FIXED COST BASIS BUT RATHER WOULD REQUIRE COST-PLUS CONTRACT SIMILAR TO THAT ASSURED TO MORRISON-KNUDSON FOR SEGMENTS OF THE SIX-LAND HIGHWAY FROM TEHRAN TO THE PERSIAN GULF. GOI OFFICIALS APPARENTLY RAISED NO OBJECTION TO THIS THOUGHT. TURNING NEXT TO THE OIL BARTER ASPECT OF THE CONTRACT, THE MCA OFFICIALS INQUIRED AS TO THE ESSENTIAL ELEMENTS OF THE RECENT BRITISH AIRCRAFT CORP (BAC)/NICO/ MINISTRY OF WAR CONTRACTS. ANSARY DECLINED EMPHATICALLY TO PROVIDE ANY OF THE DETAILS ON THE BAC AND KRUPP BARTER CONTRACTS, SAYING THAT IRAN IS NOT FACING THE SAME SITUATION AS IT DID A FEW MONTHS AGO. OIL EXPORTS HAVE IMPROVED, HE SAID, AND IN ANY EVENT ROADS DID NOT HAVE THE SAME PRIORITY AS THE BAC RAPIER MISSILES. NONETHELESS, THE GOI WAS INTERESTED IN THE ROAD PROJECT BUT EXPECTED TO RECEIVE FROM MCA ITS SPECIFIC BARTER PROPOSAL. ANSARY STATED THAT IRAN FOUND MCA WELL QUALIFIED FOR THE PROJECT, AND THAT IT WOULD BE THE RESPONSIBILITY OF THE AMERICAN FIRM TO LOCATE A QUALIFIED OIL COMPANY AND THEN COME TO THE GOI WITH ITS SPECIFIC BARTER PROPOSAL. THE PARTIES EVIDENTLY AGREED THAT THE MCA OFFICIALS WOULD RETURN CONFIDENTIAL

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TO THE US, ATTEMPT TO FIND AN OIL COMPANY WILLING TO ACCEPT AND MARKET THE CRUDE AND THEN RETURN TO IRAN

WITH ITS SPECIFIC PROPOSAL. THE GOI OFFICIALS SPECIFIED THAT THE CRUDE WOULD HAVE TO BE LIFTED 50-50 HEAVY/LIGHT AND THAT OIL DELIVERIES WOULD RUN PARALLEL WITH WORK ON THE PROJECT.

3. THE SUBJECT OF A DISCOUNT PRICE ON THE OIL WAS NOT REPEAT NOT EXPLICITLY MENTIONED. ANSARY DID SAY, HOWEVER, THAT IF ANY FINANCIAL INDUCEMENTS WERE REQUIRED TO GET AN AMERICAN OIL COMPNAY INTO THE PICTURE, THEN SUCH WOULD HAVE TO COME OUT OF MCA'S PROFITS. THERE WAS AN IMPLICIT REJECTION BY ANSARY OF ANY DISCOUNTS. (NOTE:

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R 071240Z MAR 77

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TO SECSTATE WASHDC 1527

INFO AMEMBASSY ABU DHABI

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AMEMBASSY KUWAIT

AMCONSUL DHAHRAN

C O N F I D E N T I A L SECTION 2 OF 2 TEHRAN 2059

CAUTION - THIS CABLE CONTAINS SENSITIVE PROPRIETARY INFORMATION

IT WILL BE RECALLED THAT THE BAC OIL BARTER DEAL INVOLVES  
22 US CENTS DISCOUNT FROM THE OPEC POSTED PRICE AT  
TIME OF LIFTING PLUS 2 PERCENT MANAGEMENT FEE PAYABLE  
TO BAC WHICH IS THEN TURNED OVER TO SHELL.)

4. THE 2 MINISTERS MADE IT FAIRLY CLEAR THAT MCA AT  
THIS TIME SHOULD CONFINE ITS DISCUSSIONS WITH THE  
MINISTRY OF ROADS AND TRANSPORTATION AND THEREAFTER WITH  
PBO AND NIOC IF A US OIL COMPANY CAN BE FOUND WILLING  
TO TAKE THE CRUDE. ANSARY MADE IT CLEAR THAT THE  
BURDEN WAS ON MCA TO PULL THE VARIOUS ELEMENTS OF THE  
TRANSACTION TOGETHER INTO A FIRM PROPOSAL TO THE GOI.  
AT ONE POINT IN THE CONVERSATION, ANSARY SAID THAT A GROUP  
OF BUISNESSMEN WITH WHOM HE HAD MET A SHORT TIME EARLIER  
/CAN MOVE AHEAD ON OIL BARTER AND SO CAN YOU."

5. ON THE ASSUMPTION THAT A COST-PLUS CONTRACT IS  
ACCEPTABLE AND THAT THE INTEREST OF THE MINISTRY OF ROADS  
IN THE ISFAHAN/AHWAZ PROJECT DOES NOT FLAG, MCA WILL TRY  
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TO PUT TOGETHER A COMPREHENSIVE PROPOSAL FOR SUBMISSION  
TO THE GOI NOT LATER THAN APRIL 13.

6. COMMENT: WHILE DOUBTLESS THE SHAH HAS INSTRUCTED

HIS MINISTERS TO SEEK OUT OIL BARTERS FOR MAJOR PROJECTS, ANSARY'S ATTITUDE SUGGESTS THAT THE GOI'S OWN PRIORITIES WILL GOVERN AS TO THE ESSENTIAL ELEMENTS IN PARTICULAR TRANSACTIONS, NOTABLY DISCOUNTS, IF ANY, GIVEN FROM IRAN'S CURRENT POSTED PRICES; I.E. \$12.49 FOR HEAVY AND \$12.81 FOR LIGHT. IT WOULD SEEM ALSO THAT THE GOI'S BARGAINING STANCE IS LIKELY TO BE HARD (I.E., NO DISCOUNTS) SO LONG AS LIFTINGS CONTINUE AT OR ABOUT FEBRUARY'S RELATIVELY HIGH LEVELS (SEE TEHRAN 1975). AT THE SAME TIME, MCA BELIEVES THAT IN A COST-PLUS CONTRACT THERE WOULD BE SUFFICIENT "FAT" FOR THE OIL TAKER; THE MINISTRY OF ROADS, MCA THINKS, WOULD NOT OBJECT TO THIS. IT REMAINS TO BE SEEN, OF COURSE, WHETHER MCA WILL BE ABLE TO INTEREST ANY US INDEPENDENT IN TAKING IRANIAN CRUDE AT AN UNDISCOUNTED PRICE SO LONG AS SAUDI CRUDE IS SELLING FOR 60 CENTS A BARREL LESS THAN COMPARABLE IRANIAN CRUDE. THE GOI PROBABLY WILL SEEK AS PROFITABLE A MIX OF BARTER AND CRUDE FOR CASH TRANSACTIONS FOR AS LONG AS IT CAN IN THE FACE OF OBVIOUS COMPETITIVE DISADVANTAGES VIS-A-VIS SAUDI CRUDE. UNDOUBTEDLY, ITS APPETITE FOR BARTER TRANSACTIONS AND ITS WILLINGNESS TO CONSIDER DISCOUNTS FROM THE HIGHER OF THE TWO-TIER PRICE WILL INCREASE IF IT BECOMES EVIDENT THAT LIFTINGS OF SAUDI CRUDE ARE CUTTING INTO IRANIAN MARKETS. ONLY AN EXAMINATION OF INDIVIDUAL BARTER DEALS AS ARE SIGNED WILL REVEAL GOI THINKING IN THIS REGARD. MIKLOS

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## Message Attributes

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